

## Message Text

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ACTION EA-09

INFO OCT-01 ISO-00 IO-13 SP-02 USIA-06 AID-05 EB-07 NSC-05

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FM AMEMBASSY MANILA

TO SECSTATE WASHDC 4285

INFO AMEMBASSY TOKYO

LIMITED OFFICIAL USE MANILA 5542

E. O. 11652: N/A

TAGS: ETRD, RP, US

SUBJECT: JAPANESE VIEWS ON ABAD SANTOS ANTI-DUMMY RULING

REF: MANILA 4955

1. ACCORDING TO JAPANESE COMMERCIAL ATTACHE, BOARD OF INVESTMENTS HAS SUBMITTED POSITION PAPER TO THE NATIONAL ECONOMIC AND DEVELOPMENT AUTHORITY, RECOMMENDING THAT THE PRESIDENT ISSUE AN APPROPRIATE INSTRUCTION DEFINING THE PERMISSABLE AREAS FOR PARTICIPATION IN MANAGEMENT BY FOREIGNERS SO AS TO ALLAY ANY ANXIETY BY FOREIGN INVESTORS OVER THEIR INVESTMENTS IN THE PHILIPPINES. HE HAS HAD NO FURTHER WORD FROM BOI AND PLANS TO FOLLOW UP. IN MEANTIME, ABAD SANTOS RULING MAY PROVIDE FINAL ARGUMENT OR CONVENIENT EXCUSE FOR MARUBENI TO ABANDON ITS INVESTMENT AND FINANCING OF THE CAGAYAN SUGAR CENTRAL. END SUMMARY.

1. IN AN EXCHANGE OF INFORMATION ON MUTUAL PROBLEMS, JAPANESE COMMERCIAL ATTACHE KUNIO MORIKIYO TOLD COMATT THAT HE HAD CALLED ON GOVERNOR EDGARDO TORDESILLAS OF THE BOARD OF INVESTMENT FOR CLARIFICATION OF THE RECENT ABAD SANTOS RULING AGAINST ALIENS HOLDING OFFICER POSITIONS IN  
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CORPORATIONS ENGAGED IN PARTIALLY NATIONALIZED ACTIVITIES.

TORDESILLAS SEEMED COOPERATIVE AND STATED THAT BOI HAD SUBMITTED A POSITION PAPER TO NEDA, RECOMMENDING THAT THE PRESIDENT ISSUE A LETTER OF INSTRUCTION OR APPROPRIATE DECISION WHICH WOULD CLEARLY DEFINE THE PERMISSIBLE AREAS FOR PARTICIPATION IN MANAGEMENT BY FOREIGNERS. THIS PRESUMABLY SHOULD ALLAY ANY ANXIETY BY FOREIGN INVESTORS OVER THEIR INVESTMENTS IN THE PHILIPPINES. TORDESILLAS, HOWEVER, REFUSED TO BE DRAWN OUT ON THE SPECIFICS OF THE BOI POSITION PAPER OR THE PERMISSIBLE AREAS, AND MORIKIYO SAID THAT HE WOULD FOLLOW UP WITH TORDESILLAS SOON.

2. COMATT TOLD MORIKIYO THAT WE HAVE MET TWICE WITH BOI CHAIRMAN VICENTE PATERNO, THE LATEST SESSION INCLUDING PARTICIPATION BY AMCHAM OFFICERS, TO SEEK TO DEFINE THE ISSUES FOR WHICH SOLUTIONS ARE NEEDED IN ORDER TO ENABLE PARTICIPATION IN MANAGEMENT BY ALIENS TO A DEGREE COMMENSURATE WITH THEIR INVESTMENT. WE PLAN TO MEET AGAIN WITH BOI SOON IN ORDER TO DRAFT AN AGREED MEMORANDUM OF ISSUES.

3. MORIKIYO SAID THAT THE ABAD SANTOS OPINION WOULD AFFECT ONLY A FEW JAPANESE COMPANIES, NONE OF WHOM HAVE COMPLAINED OR APPROACHED HIM ON THE SUBJECT. HE ESTIMATED THAT JAPANESE INVESTMENTS IN THE PHILIPPINES WERE ABOUT \$200 MILLION, MOSTLY LOANS AND DEFERRED PAYMENT SCHEMES, WITH ABOUT \$30 MILLION REPRESENTING ACTUAL EQUITY. EQUITY INVESTMENT APPROVALS WERE OF COURSE MUCH HIGHER.

4. ONE CASUALTY OF THE ABAD SANTOS RULING, MORIKIYO SUGGESTED, WOULD LIKELY BE MARUBENI'S INVESTMENT AND FINANCING OF THE NEW SUGAR CENTRAL OF THE CAGAYAN SUGAR COMPANY (CASUCO). THIS NEW CENTRAL WOULD OPEN UP VIRGIN AND IDLE LAND IN THE CAGAYAN VALLEY FOR SUGAR CANE GROWING. ON BALANCE, IT WAS THE CURRENT POOR SUGAR MARKET IN JAPAN WHICH IS FORCING MARUBENI TO HAVE SECOND THOUGHTS ABOUT THE PROJECT, BUT THE ABAD SANTOS RULING WOULD PROBABLY BE THE FINAL STRAW AND/OR THE CONVENIENT EXCUSE.

5. MORIKIYO STATED THAT THE JAPANESE CONSIDER THE LIMITED OFFICIAL USE

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PHILIPPINES A GOOD PLACE TO INVEST AT PRESENT BECAUSE OF THE UNSATISFACTORY RECEPTION OF JAPANESE INVESTORS BY THE KOREANS, TAIWANESE, INDONESIANS AND THAIS. IF THE CLIMATE IN INDONESIA AND THAILAND WERE TO IMPROVE, THE JAPANESE WOULD FLOCK BACK THERE--BASICALLY BECAUSE THE MARKETS ARE LARGER OR MORE ATTRACTIVE AND THERE ARE MORE NATURAL RESOURCES. THE PHILIPPINES MAY HAVE 45 MILLION PEOPLE, BUT "BECAUSE OF THE GROSS MALDISTRIBUTION OF INCOME" THE

EFFECTIVE ECONOMIC MARKET WAS PROBABLY ONLY 5 MILLION,  
MORIKYO OPINED.

6.  
EXPRESSING HIS APPRECIATION FOR GETTING TOGETHER AND EXCHANGING  
NOTES, MORIKIYO REVEALED THAT THE FOREIGN OFFICE INVARIABLY  
WANTED THE EMBASSY TO PROVIDE AN ASSESSMENT OF THE USG ATTITUDE  
IN ANY REPORT. HE SAID THAT THIS IS DUE TO THE TENDENCY OF THE  
FOREIGN OFFICE OF KEEPING IN STEP (OR NOT GETTING OUT OF  
STEP) WITH THE USG, BUT THIS IS NOT THE CASE WITH MITI (FROM WHENCE  
HE COME).

7. COMMENT: THIS IS THE FIRST WE HAVE HEARD OF ANY DRAFT BOI  
POSITION PAPER HAVING BEEN PRESENTED TO NEDA AND CANNOT UNDERSTAND  
WHY PATERNO HAS NOT MENTIONED IT TO US ON THE SEVERAL OCCASIONS  
ON WHICH WE HAVE AFFORDED HIM THE OPPORTUNITY. ALTHOUGH MORIKIYO'S  
SPOKEN ENGLISH IS STILL PAINFULLY POOR AND THERE MAY HENCE HAVE  
BEEN SOME MISUNDERSTANDING ALONG THE LINE, PERHAPS IN HIS CON-  
VERSATION WITH TORDESILLAS, WHAT HE HAD TO SAY TO US IN THIS  
CONNECTION WAS PERFECTLY CLEAR, AND WE WILL SEEK CLARIFICATION  
FROM BOI REGARDING THE EXISTANCE OF SUCH A POSITION PAPER.  
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